

TRANSITIONING TO NON-SELF-SERVICE PACK OUTLETS

Preface

The enactment of Local, State, and/or National Legislative Restrictions may alter the conditions by which cigarettes are sold at retail. RJR is committed to supporting its Partners through this transition. For the short-term, RJR has communicated to its Partners the need to test different alternatives for the purpose of contingency planning for the future. With the uncertainty of the final outcome and timing of Legislative Restrictions, the need for future contingency planning has grown in importance. As with any business decision, it is critical that an "informed" decision is made with sound information available to reinforce the ultimate outcome. It is for this purpose that the following information is provided to you, our valued Trade Partner.

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Legislative Outcome

Local and State Legislative Restrictions are already a reality in some areas of the country.

- Most impose differing degrees of cigarette product consumer-access restrictions.
- Cigarette advertising may also be limited in some areas.

The proposed resolution for tobacco*, is also being evaluated by Congress and the President. The proposal as currently written states:

- Self-Service merchandising permitted only in age-restricted outlets.
- In non-age-restricted outlets:
 - Tobacco products must be placed out of reach of consumers (i.e.: behind the counter or under lock and key) or, if on the counter, not visible or accessible to consumers.
 - Cigarette manufacturer advertising must appear in Black and White format in conformance with new size and location requirements.

* The proposal at this point is just an outline. Changes may be proposed and it is impossible to predict the final outcome or timing of the process.

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Legislative Outcome (continued)

RJR is fully aware of the multitude of current and future merchandising issues facing the retailer in a new restricted environment.

- Merchandising development is underway to ultimately provide you with effective and profitable options to display and advertise the Cigarette Category.
- It is critical to your current and future profitability that you, the retailer, evaluate all merchandising alternatives prior to setting your future course of action.
- Failing to do so could cost you money, both in Category Profitability and in the resources of other manufacturers. Other categories sales and profits can also be impacted negatively.

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Competitive Pressures

Some manufacturers may present Non-Self-Service merchandising solutions to you that propose store reconfiguration prior to legislated implementation dates.

- Evaluate these presentations carefully; timing is critical.
- Even though a proposal is described as an "Industry Merchandising Solution" to address the NSS environment, it may be extremely self-serving (grows one manufacturer's volume at the expense of total store volume).
- Consider whether the merchandising proposal has a negative impact on your contractual agreements with other manufacturers.
- Selecting one merchandising approach can limit the availability of resources from other manufacturers which could place your stores at a major competitive disadvantage.

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Competitive Pressures (continued)

If questions arise, your RJR representative can help you review merchandising proposals and evaluate other options.

Non-Self-Service merchandising, if implemented correctly, can still address the needs of your customer base. If implemented incorrectly, NSS can drive your current customer base to shop at other stores.

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Marketplace Influences

Reconfiguring to Non-Self-Service now, versus when necessary, can cost you customers and profits.

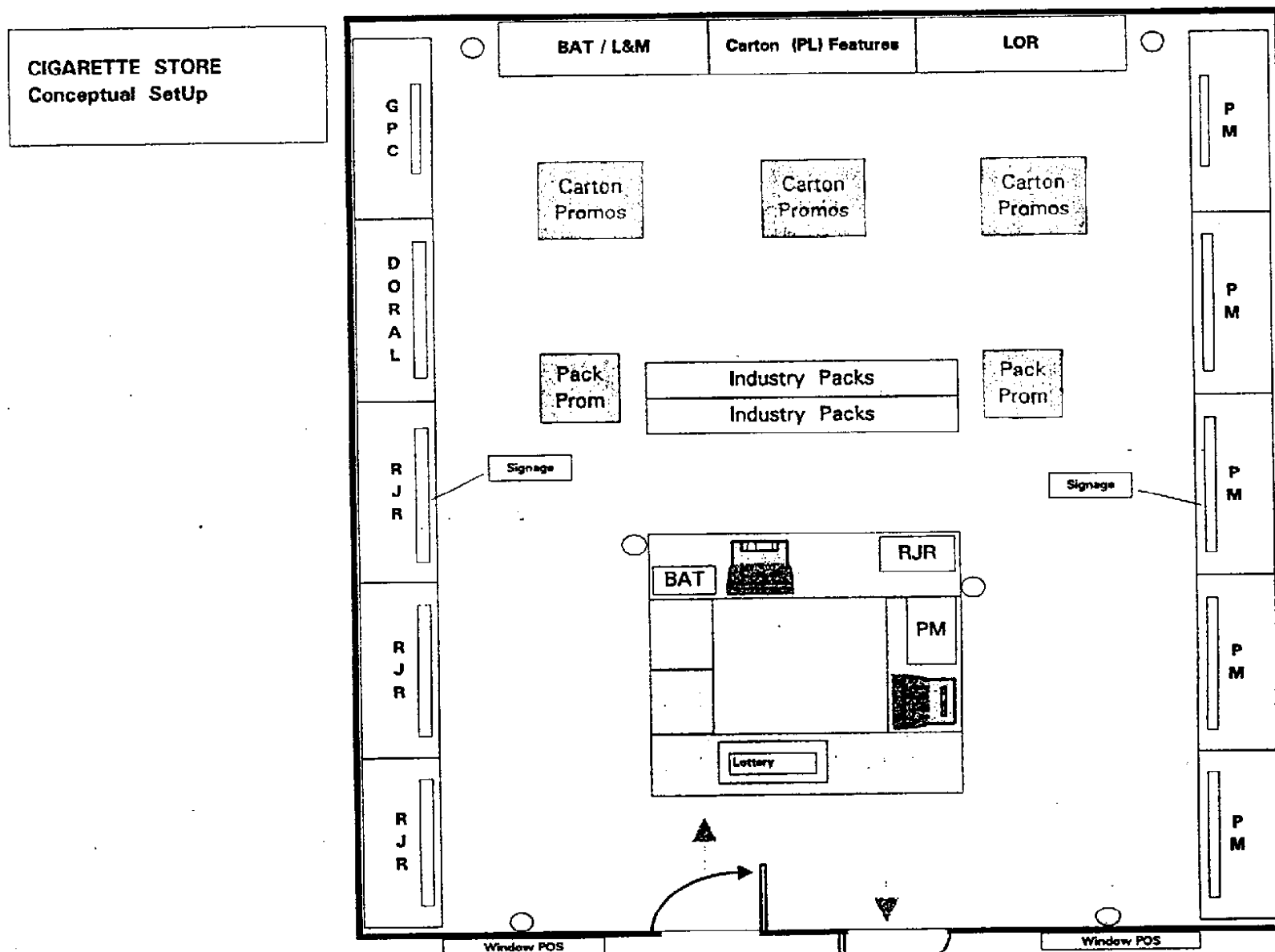
- Volume declines in Cigarette Category sales can reach as high as 6% to 14% if competitive retailers remain on Self-Service while you convert to NSS. Why? Quite simply, it is an issue of customer convenience, (smoker / consumer friendly).
- If consumers change purchase patterns to another outlet versus yours, you run the risk of losing these consumers cigarette business and other categories sales. Will they return to your stores once other retailers have converted to NSS? This is a risk you should evaluate.

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The Bottom Line

Transitioning to Non-Self-Service, when faced with Legislative Restrictions, boils down to (2) major issues; the Approach and the Timing of implementation. RJR can serve as your Category Advisor in assisting you with both issues to insure the least amount of disruption is experienced by you, your store personnel, and your customer base. RJR is currently developing merchandising alternatives that will address your future needs for the Cigarette Category.

CIGARETTE OUTLET

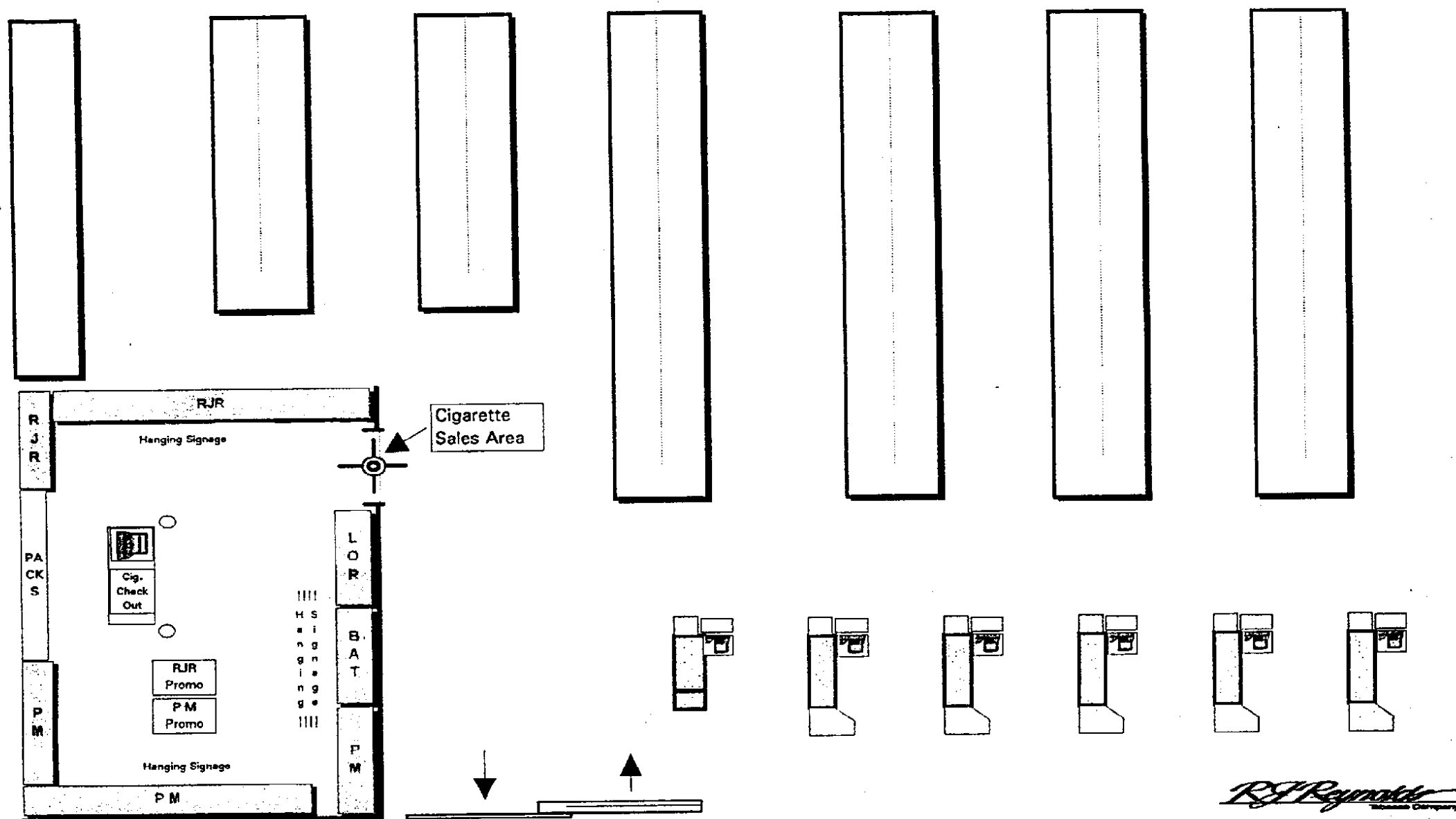


RJ Reynolds
Tobacco Company

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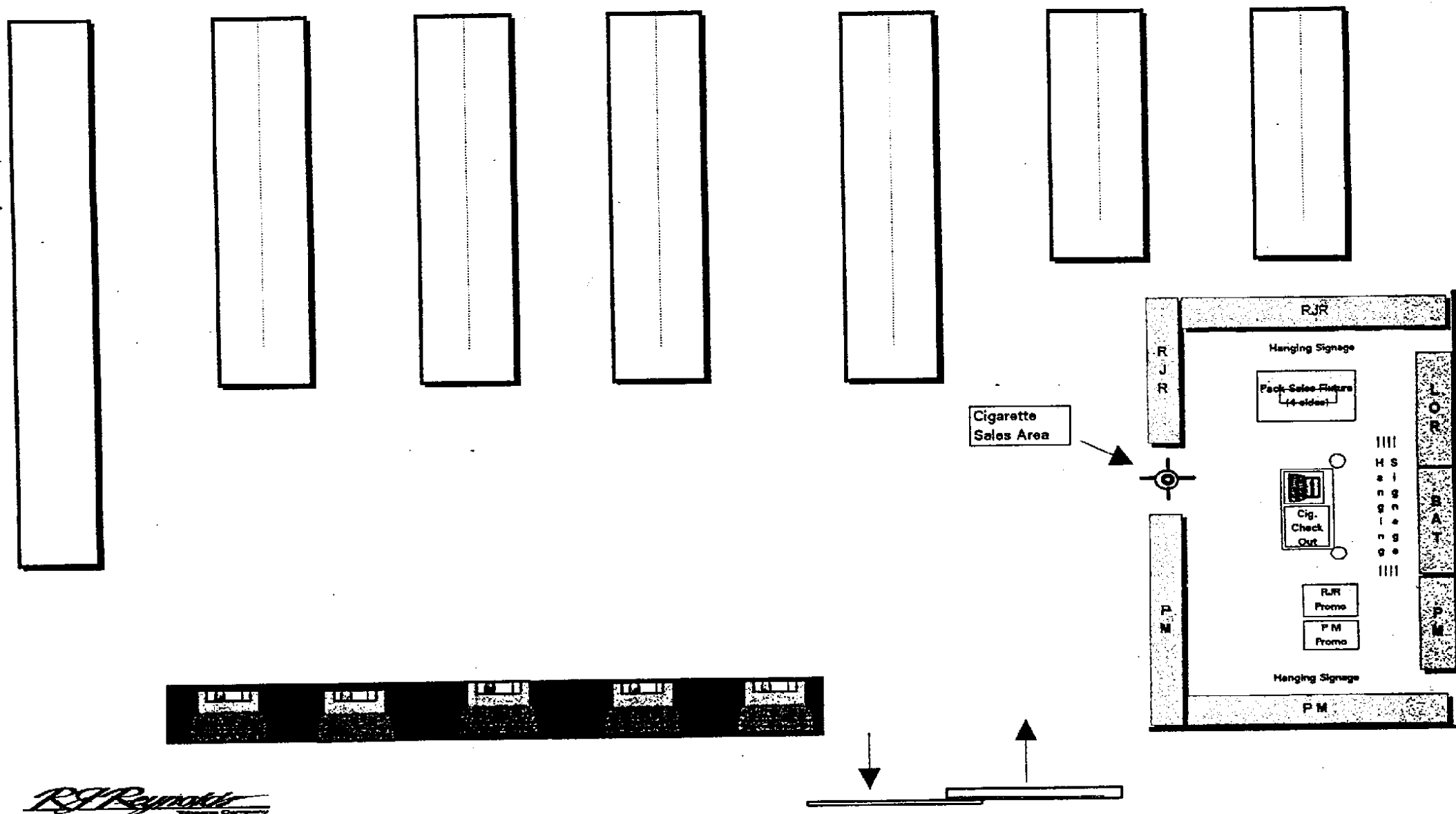
STORE WITHIN A STORE



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STORE WITHIN A STORE CONCEPT



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